

Message Text

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NODIS CHEROKEE

E.O. 11652 GDS

TAGS: ETRD, EEWT, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

FROM ROBINSON

1. SUMMARY. I MET FOR THREE HOURS THIS AFTERNOON WITH MINISTER PATOLICHEV AND KUZ'-MIN ACCOMPANIED BY AMBASSADOR STOESSEL ONLY. THE MEETING HAD BEEN CALLED BY PATOLIVHEV FOR PERSONAL DISCUSSION WITH ME TO APPRAISE THE CHANCES OF CONCLUDING A LONG-TERM GRAIN AGREEMENT. WE CONCLUDED THAT THERE WERE THREE BASIC ISSUES REMAINING AND WE BOTH EXPRESSED HOPE THAT THESE COULD BE RESOLVED SHORTLY.

A. THESE UNRESOLVED ISSUES ARE:

(1) ASSURED EXTENSION OF THE MARITIME AGREEMENT, CO-TERMINOUS WITH THE GRAIN AGREEMENT, AND CONTINUING THE ONE-THIRD CARGO-SHARING FORMULA FOR US FLAG VESSELS. WE AGREED THAT THIS CAN PROBABLY BE RESOLVED PROMPTLY THROUGH AN EXCHANGE OF CABLES BETWEEN THE US MARITIME ADMINISTRATION AND THE SOVIET MINISTRY OF MERCHANT MARINE, WHICH ARE RESPONSIBLE FOR THESE NEGOTIATIONS.

(2) THE ESCAPE CLAUSE PROVISION WHERE US INSISTENCE ON PROTECTION IN EVEN OF GRAIN SUPPLY DEFICIENCIES IS BEING MET BY DETERMINED DEMANDS FOR EQUAL PROTECTION FOR THE SOVIETS IN EVENT OF EXCESSIVE GRAIN STOCKS IN THE USSR. I AM HOPEFUL THAT THIS CAN BE RESOLVED WITH GREATER FLEXIBILITY OF THE U.S. SIDE, WHICH SHOULD REDUCE SOVIET DEMANDS TO AN ACCEPTABLE LEVEL.

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(3) THE QUESTION OF THE LETTER OF INTENT ON THE OIL AGREEMENT REMAINS TO BE RESOLVED. WE ARE AWAITING INSTRUCTIONS FROM WASHINGTON AS TO WHETHER OUR PROPOSED LETTER OF INTENT PROVIDES ACCEPTABLY LINKAGE BETWEEN GRAIN AND OIL AGREEMENTS TO ALLOW US TO PROCEED WITH THE CONCLUSION OF THE GRAIN AGREEMENT. ALTHOUGH DISCUSSED IN GENERAL WITH THE SOVIETS, WE HAVE NOT YET PRESENTED A DRAFT OF THE LETTER OF INTENT, BUT PLAN TO DO SO TOMORROW TO EXPEDITE DISCUSSION OF THIS POSSIBILITY.

B. I AM HOPEFUL THAT THESE UNRESOLVED ISSUES CAN BE SETTLED BUT IT IS UNLIKELY THAT WE'LL ACHIEVE THIS BEFORE TOMORROW NIGHT, SATURDAY, OCTOBER 4. IT IS MY RECOMMENDATION THAT WE AGREE TO EXTEND NEGOTIATIONS THROUGH MONDAY NIGHT OF NEXT WEEK IN THE HOPE THAT WE WILL BE ABLE TO REACH A FINAL AGREEMENT BY THAT TIME.
END SUMMARY.

2. WE DISCUSSED WITH MINISTER PATOLIVHEV IN SOME DETAIL THE ESSENTIALITY OF AN ASSURED EXTENSION OF THE MARITIME AGREEMENT THROUGH THE FIVE YEARS OF THE PROPOSED GRAIN AGREEMENT WITH THE ONE-THIRD GRAIN CARGO AVAILABILITY FOR US-FLAG VESSELS. I REPORTED TO PATOLICHEV THAT, FOLLOWING OUR DISCUSSION ON THIS ISSUE YESTERDAY, WE HAD SUGGESTED TO WASHINGTON THAT USMARAD REACH AGREEMENT WITH THE SOVIET MINISTRY OF MERCHANT MARINE TO RESOLVE THIS ISSUE. KUZ'MIN THEN CALLED THE MINISTER OF MERCHANT MARINE, WHO ASSURED HIM THAT HE WAS PREPARED TO ACKNOWLEDGE THEIR COMMITMENT TO AN EXTENSION INCORPORATING THESE PROVISIONS. THE MINISTRY OF FOREIGN TRADE WILL CONTINUE TO PRESS OFFICIALS IN THE MINISTRY OF MERCHANT MARINE TO MEET THIS CONDITION PROMPTLY TO AVOID DELAYING CONCLUSION OF THE GRAIN AGREEMENT. I AGAIN URGE THAT BLACKWELL OF USMARAD SEND APPROPRIATE MESSAGE TO MINISTRY OF MERCHANT MARINE WITHOUT FURTHER DELAY WITH COPY TO EMBASSY.

3. QUESTION OF ESCAPE CLAUSE REMAINS THE MOST DIFFICULT ISSUE STANDING IN THE WAY OF CONCLUSION OF THE GRAIN AGREEMENT. THIS IS BEING NEGOTIATED INTENSIVELY WITHIN THE GRAIN WORKING GROUP AND HOPEFULLY BY TOMORROW WE WILL HAVE A FORMULATION ACCEPTABLE TO THE SOVIETS WHICH WE CAN RECOMMEND FOR APPROVAL IN WASHINGTON. HOWEVER, IT IS UNLIKELY THAT WE CAN OBTAIN THE FULL PROTECTION REQUIRED BY CEA AND OMB AND THIS THEREFORE MAY REQUIRE A PRESIDENTIAL DECISION.

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4. WITH REGARD TO THE OIL AGREEMENT LINKAGE, WE ANTICIPATE THAT WE CAN CONCLUDE A LETTER OF INTENT COMMITTING THE USSR AND THE U.S. TO PROCEED WITH NEGOTIATION OF A FIVE-YEAR OIL AGREEMENT WITH PRIOR ACCEPTANCE OF ALL THE BASIC TERMS WE HAVE REQUESTED BUT LEAVING OPEN THE PRICING FORMULA WHICH WILL BE "AS MUTUALLY AGREED."

5. PATOLICHEV CONTINUES TO IMPLY THAT HE RECOGNIZES THE NEED FOR A PRICE DISCOUNT BUT STRESSES THE IMPORTANCE OF NOT DOING THIS IN A FORM WHICH LEAVES THEM DEFENSELESS AGAINST POLITICAL CRITICISM EITHER DOMESTICALLY OR EXTERNALLY. THE IDEA OF TRANSPORTING THIS OIL TO THE U.S. AS BACK-HAUL CARGO IN VESSELS EMPLOYED IN THE TRANSPORT OF GRAIN IS ATTRACTIVE TO THE SOVIETS. WE HAVE DISCUSSED THE POSSIBILITY OF SHARING THIS MOVEMENT AT RATES TO BE ESTABLISHED BY MUTUAL AGREEMENT. WE HAVE ALSO RECEIVED FROM PATOLICHEV ACKNOWLEDGEMENT THAT THE DELIVERED COST OF THIS OIL IN THE U.S. MUST BE SUFFICIENTLY ATTRACTIVE TO ENCOURAGE THE SWITCH FROM OTHER SOURCES. I AM CONVINCED THAT WE CAN DEVELOP A FORMULA BASED ON SHIPPING COST DIFFERENTIALS WHICH WILL PROVIDE US WITH A DISCOUNT AND STILL PROTECT THE SOVIETS POLITICALLY.

6. ALTHOUGH WE LOSE WHATEVER LEVERAGE WE MAY HAVE IN GRAIN SALES BY DEFERRING THE PRICE NEGOTIATION ON SOVIET OIL, IT IS MY JUDGMENT THAT THERE IS NO REASONABLE HOPE OF CONCLUDING SUCH AN AGREEMENT WITHOUT SEVERAL WEEKS OF INTENSIVE NEGOTIATION. IF WE ARE TO CONCLUDE THE LONG-TERM GRAIN AGREEMENT, IT IS IMPORTANT, FOR REASONS SPELLED OUT BELOW, THAT WE DO SO PROMPTLY AND IN NO EVENT LATER THAN OCTOBER 15. I BELIEVE WE SHOULD ATTEMPT TO CONCLUDE THE LETTER OF INTENT ON OIL SIMULTANEOUSLY WITH THE SIGNING OF THE GRAIN AGREEMENT.

7. IT IS MY JUDGMENT THAT OUR NEGOTIATING LEVERAGE ON THE LONG-TERM GRAIN AGREEMENT WILL STEADILY DECLINE AS WE APPROACH THE OCTOBER 11 ANNOUNCEMENT OF THE REVISED CROP ESTIMATE. THE SOVIETS ARE CONFIDENT OF THE U.S. POLITICAL NECESSITY FOR LIFTING THE MORATORIUM ON FURTHER GRAIN SALES TO THE SOVIETS BY MID-OCTOBER, PARTICULARLY IN VIEW OF THE PRESIDENT'S PUBLIC STATEMENTS ON THIS MATTER, WHICH PATOLICHEV QUOTES REGULARLY. FURTHERMORE, WE WERE ADVISED FOR THE FIRST TIME TODAY THAT THE SOVIETS DO NOT ANTICIPATE THE NEED FOR FURTHER CONSULTATION ON ADDITIONAL GRAIN

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PURCHASES BECAUSE THEY ALREADY HAVE A "COMMITMENT" FROM THE PRESIDENT AND FROM YOU REGARDING THIS ISSUE. WHETHER OR NOT THIS IS CORRECT IT IS CLEAR THAT THEY ANTICIPATE THAT FARMER PRESSURE ON THE PRESIDENT WILL ASSURE THE AVAILABILITY OF THE ADDITIONAL GRAIN REQUIRED TO MEET THEIR MINIMUM NEEDS FOR THE CURRENT YEAR.

8. TO EXPEDITE CONCLUSION OF THESE NEGOTIATIONS, I AM HOPEFUL THAT WE CAN AVOID NITPICKING ISSUES, RESTRICTING THE INTERAGENCY CONSULTATION TO THE THREE MAJOR UNRESOLVED ISSUES: MARITIME AGREEMENT, ESCAPE CLAUSE AND LETTER OF INTENT ON OIL, AS DISCUSSED ABOVE. I BELIEVE ALL OTHER QUESTIONS CAN BE RESOLVED WITHIN THE BASIC AUTHORITY GRANTED PRIOR TO MY DEPARTURE FROM WASHINGTON.

9. AT SOME POINT IN THE NEGOTIATIONS WE MUST BE PREPARED TO LEAVE MOSCOW IF WE ARE UNABLE TO OBTAIN SOVIET APPROVAL OF OUR FINAL

POSITION; HOWEVER WE HAVE NOT YET DEFINED OUR DIFFERENCES WITH
SUFFICIENT CLARITY TO PROVIDE A BASIS FOR A FINAL ULTIMATUM.
FOR THIS REASON, I FEEL THAT IT WOULD BE A TACTICAL ERROR TO
LEAVE MOSCOW OVER THIS WEEKEND.

10. I BELIEVE THAT WE SHOULD SEEK TO CONCLUDE THE LONG-TERM GRAIN
AGREEMENT AND THE LETTER OF INTENT ON OIL BY MONDAY, OCTOBER 6,
WITH OUR DEPARTURE SCHEDULED FOR MID-DAY TUESDAY. I WILL PROCEED
ON THIS BASIS UNLESS THERE IS A CHANGE IN THE SITUATION OR YOU
SEND CONTRARY INSTRUCTIONS.
STOESSEL

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